

## MEMORANDUM

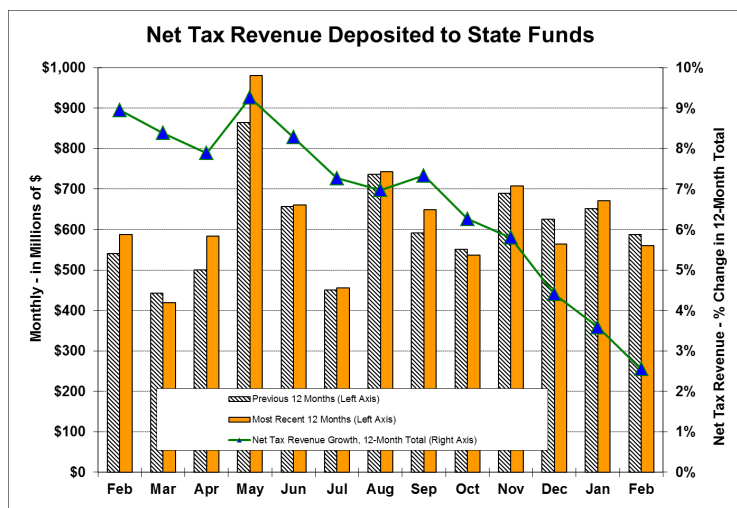
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: March 31, 2014

### Twelve-month Total Net Tax Receipts Through February 28, 2014

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending February 2014 with comparisons to the previous 12 months. February 2013 to February 2014 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

The annual growth rate for Iowa total tax revenue reached 9.3% in May 2013. Since that time, the growth rate has declined significantly, and registered 2.6% for the 12 months ending February 2014. Individual income tax revenue growth, net of tax refunds, increased 3.8% over the last year. Gambling tax (- 3.9%) and real estate transfer tax (- 3.6%) deposits have decreased recently, indicating that some of the overall revenue decline may be attributed to weather issues.

## Month of February Comparison

February net tax receipts totaled \$560.2 million, a decrease of \$26.8 million (- 4.6%) compared to February 2013. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$34.3 million, - 17.4%) – Although individual income tax deposits increased in February, income tax refunds were up \$56.6 million (37.7%) for the month. Two law changes contributed significantly to the tax refund increase. The Earned Income Tax Credit was increased from 7.0% of the federal credit amount to 14.0%, and a new Taxpayer Trust Fund Tax Credit was initiated with tax year 2013 tax returns
- Sales/Use Tax (positive \$9.0 million, 3.1%)
  - Road Use Tax Fund use tax (fee for new vehicle registration) decreased \$1.0 million.
  - General Fund sales/use tax receipts increased \$10.0 million. Gross sales/use tax receipts increased \$14.4 million while regular tax refunds increased \$1.4 million and school infrastructure transfers out increased \$3.0 million.
- Corporate Income Tax (negative \$1.3 million, - 9.9%) – A large increase in corporate income tax deposits was more than offset by an increase in corporate tax refunds this month.
- Fuel Tax (negative \$0.2 million, - 0.6%)
- Cigarette and Tobacco Taxes (positive \$3.4 million, 29.6%)
- Gambling Tax (negative \$3.9 million, - 14.3%)

## Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending February 2014, net revenue from all taxes deposited to State funds totaled \$7.531 billion, an increase of \$187.4 million (2.6%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$123.3 million, 3.8%) – While Individual income tax continues to post year-over-year annual growth, the growth percent is declining rapidly as tax law changes reduce income taxes owed. In addition, federal tax actions last year provided a one-time boost to revenue a year ago. The annual rate of income tax revenue growth is expected to decline through May 2014.
- Sales/Use Tax (positive \$49.0 million, 2.0%)
- Corporate Income Tax (positive \$5.1 million, 1.2%)
- Fuel Tax (negative \$0.7 million, - 0.2%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 0.5%, the first year-over-year increase in the annual total since January 2012. Taxable diesel sales increased 4.2%, the largest increase in that annual average since April 2011. The annual total for all taxable fuel gallons sold in Iowa is currently 2.4% below the last peak (12 months ending July 2011).
- Gambling Tax (negative \$11.8 million, - 3.9%) – According to Racing and Gaming Commission statistics, 15 of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12-months ending February 2014. The combined AGR change for the 18 facilities was negative 2.9% over the previous 12 months. Across all facilities, the AGR for the most recent 12 months totaled \$1.407 billion. The annual AGR total has been declining and is 4.3% below the November 2012 peak.
- Real Estate Transfer Tax (negative \$0.7 million, - 3.6%) – Real estate transfer tax deposits over the months of January and February 2014 were 27.3% below the same two months

last year. The revenue is due and deposited the month after the transaction occurs, so the tax revenue reduction points to reduced real estate transactions in the months of December and January.

- Cigarette and Tobacco Tax (positive \$7.4 million, 3.3%)

### **Tax Spotlight – Real Estate Transfer Tax**

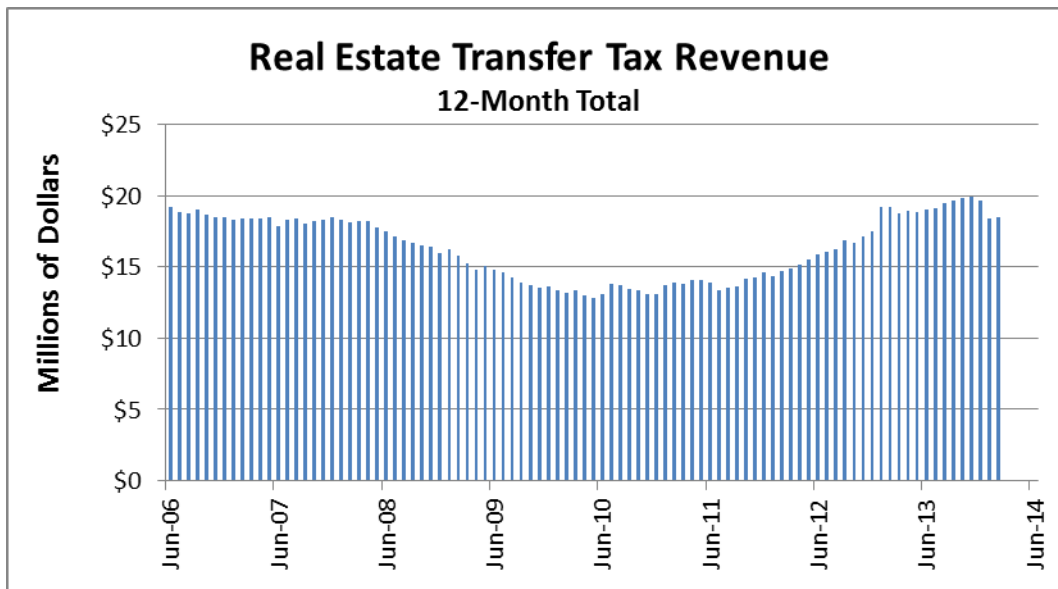
The transfer of real estate is taxed under the authority of [Iowa Code chapter 428A](#). The tax was first effective July 1965, and the current tax rate was effective beginning July 1991. The tax rate is \$0.80 per \$500, including any fractional part of \$500, of consideration paid for real property transferred.

The real estate transfer tax is payable when the instrument conveying the real property is presented for recording. The tax payment is noted on the instrument (usually a deed) of transfer at the time the instrument is recorded. The county recorder must file tax returns with the State Treasurer by the tenth day of each month for tax collected during the preceding month.

The county retains 17.25% of the real estate transfer tax collected. Of the remaining 82.75%, 70.0% during FY 2014 is deposited to the State General Fund, 25.0% to the Housing Trust Fund, and 5.0% to the Shelter Assistance Fund. The real estate transfer tax dollars reflected in this report do not include the portion retained by counties. For the 12 months ending February 2014, the State collected \$18.5 million from the real estate transfer tax, with \$14.1 million of that amount deposited to the State General Fund and the remainder to the housing and shelter assistance funds.

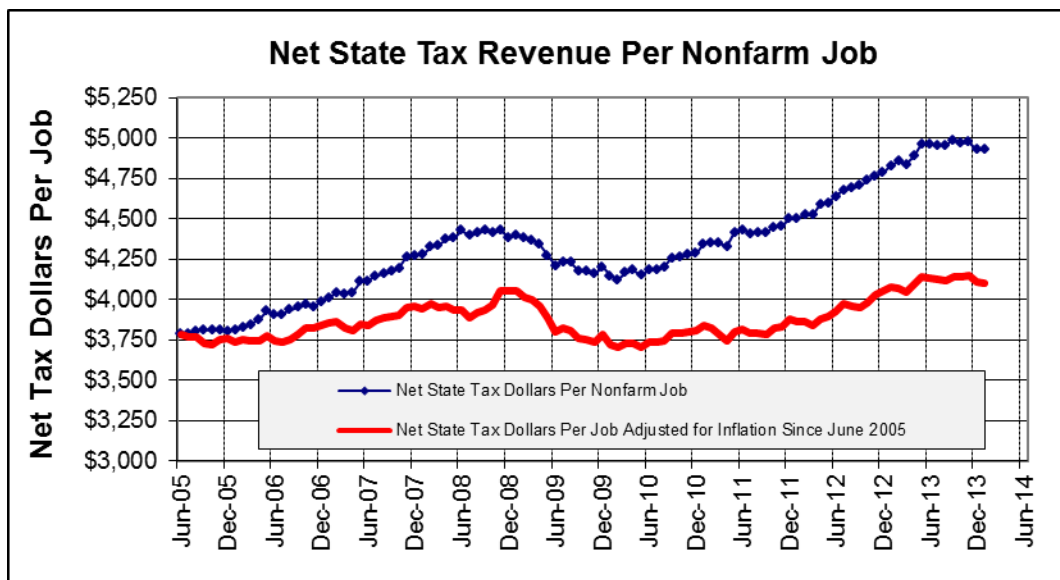
During the 2008 Legislative Session, enactment of SF 2432 (Infrastructure and Capital Projects Appropriations Act) created and added the Housing Trust Fund to the distribution formula. As a result of this legislation, the General Fund portion of the Real Estate Transfer Tax percentage is being reduced five percentage points annually until FY 2015 when the percent deposited will be 65.0%. The Housing Trust Fund will receive the Real Estate Transfer Tax amount reduced from the General Fund. The distribution to the Shelter Assistance Fund is not impacted.

The Shelter Assistance Fund is administered by the Iowa Finance Authority (see [Iowa Code section 16.41](#)). Money in the Fund may be used for rehabilitation, expansion, or operating costs of group home shelters for the homeless and domestic violence shelters. Of the moneys in the Fund, at least \$546,000 must be spent annually on homeless shelter projects. The Housing Trust Fund is administered by the Iowa Finance Authority ([Iowa Code section 16.181](#)). Money in the Fund is to be used for the development and preservation of affordable housing for low-income residents within the State and for the Iowa Mortgage Help initiative.

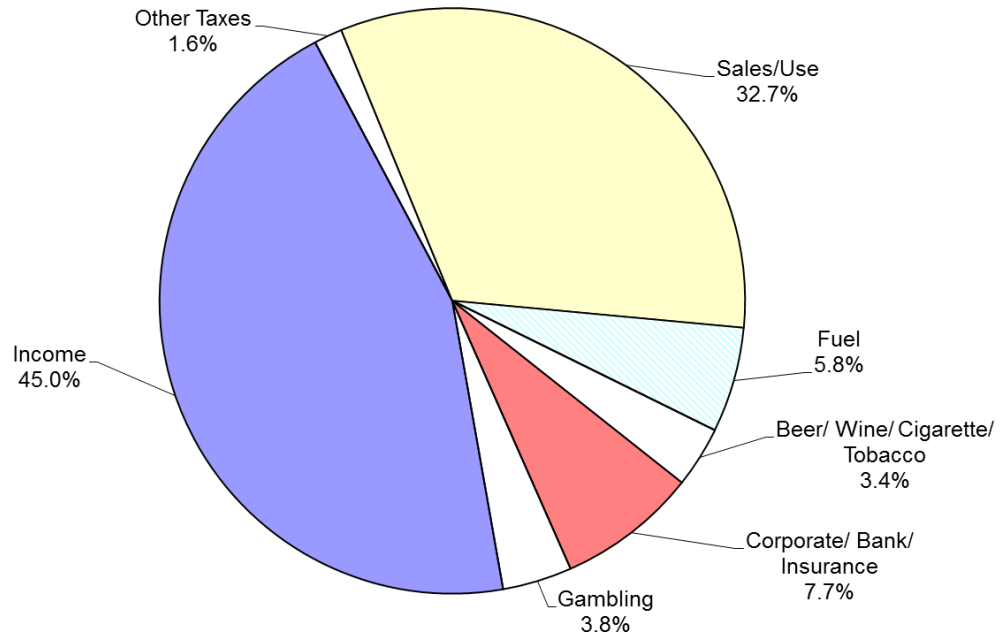


## Tax Revenue and Employment

The average reading for Iowa nonfarm employment over the 12 months ending January 2014 is 1,531,400 and net State tax receipts over the same 12 months totaled \$7.558 billion, or \$4,935 per nonfarm job. This is \$1,150 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation adjusted tax revenue per job has increased \$318 since June 2005 and the remainder of the \$1,155 increase (\$832) represents the impact of inflation.

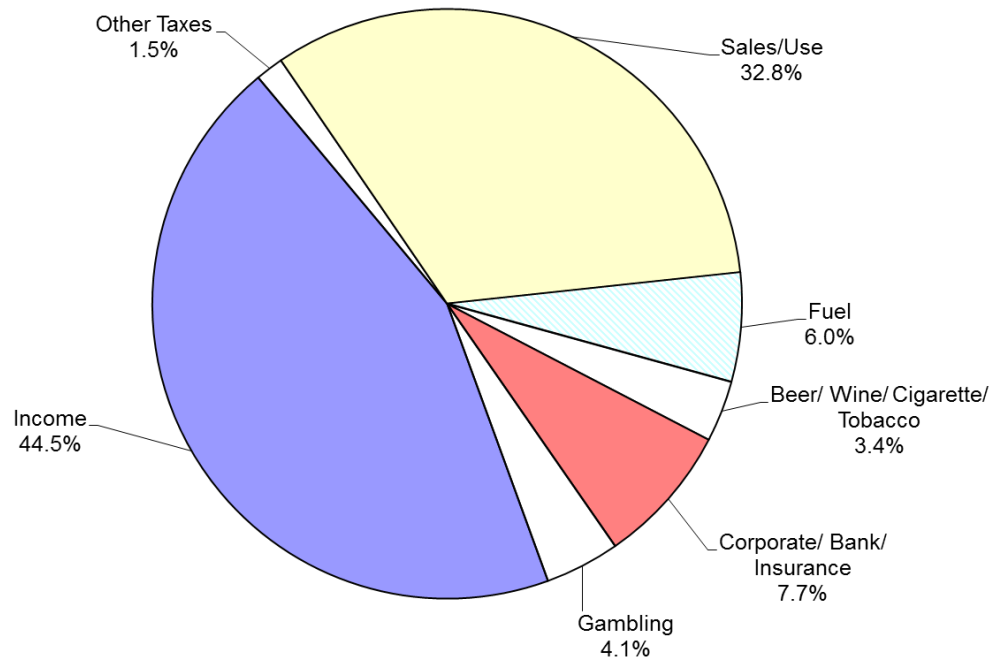


**Net State Tax Revenue - Twelve Months Ending February 2014**  
**Net Revenue = \$7.531 Billion**  
Percentages may not add to 100% due to rounding



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**Net State Tax Revenue - Twelve Months Ending February 2013**  
**Net Revenue = \$7.344 Billion**  
Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of February 2013	Month of February 2014	February \$ Change	February % Change
Banking	\$ 31.5	\$ 34.9	\$ 3.4	10.8%	\$ 0.5	\$ 0.3	\$ - 0.2	-40.0%
Beer & Wine	22.1	21.9	- 0.2	-0.9%	1.5	1.5	0.0	0.0%
Cigarette & Tobacco	224.5	231.9	7.4	3.3%	11.5	14.9	3.4	29.6%
Corporate Income	433.3	438.4	5.1	1.2%	13.1	11.8	- 1.3	-9.9%
Fuel	438.6	437.9	- 0.7	-0.2%	32.8	32.6	- 0.2	-0.6%
Gambling	301.0	289.2	- 11.8	-3.9%	27.2	23.3	- 3.9	-14.3%
Individual Income	3,266.8	3,390.1	123.3	3.8%	196.6	162.3	- 34.3	-17.4%
Inheritance	83.9	86.4	2.5	3.0%	6.9	5.1	- 1.8	-26.1%
Insurance	101.8	108.5	6.7	6.6%	1.4	3.8	2.4	171.4%
Other Taxes	9.7	13.1	3.4	35.1%	- 0.1	- 0.1	0.0	--
Real Estate Transfer	19.2	18.5	- 0.7	-3.6%	1.2	1.3	0.1	8.3%
Sales/Use	2,411.3	2,460.3	49.0	2.0%	294.4	303.4	9.0	3.1%
Total Net Taxes	<u>\$ 7,343.7</u>	<u>\$ 7,531.1</u>	<u>\$ 187.4</u>	2.6%	<u>\$ 587.0</u>	<u>\$ 560.2</u>	<u>\$ - 26.8</u>	-4.6%
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 8,581.5	\$ 8,940.3	\$ 358.8	4.2%	\$ 788.2	\$ 817.5	\$ 29.3	3.7%
Tax Refunds	\$ - 1,237.9	\$ - 1,409.3	\$ - 171.4	13.8%	\$ - 201.2	\$ - 257.5	\$ - 56.3	28.0%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 6,198.2	\$ 6,294.1	\$ 95.9	1.5%	\$ 497.7	\$ 460.3	\$ - 37.4	-7.5%
Road Use Tax Fund	\$ 756.9	\$ 775.1	\$ 18.2	2.4%	\$ 61.5	\$ 60.2	\$ - 1.3	-2.1%
Non-GF Gambling	\$ 258.2	\$ 287.1	\$ 28.9	11.2%	\$ 27.0	\$ 23.2	\$ - 3.8	-14.1%
Other State Funds	\$ 130.2	\$ 174.7	\$ 44.5	34.2%	\$ 0.8	\$ 16.4	\$ 15.6	1950.0%
Local Option Taxes *	\$ 856.9	\$ 908.1	\$ 51.2	6.0%	\$ 67.9	\$ 72.7	\$ 4.8	7.1%

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund. Beginning FY 2014, all cigarette and tobacco tax revenue is deposited to the Health Care Trust Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds. For FY 2013, \$40.0 million was deposited to the General Fund and the remainder to other State funds. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, the Technology Reinvestment Fund, and the Iowa Skilled Worker and Job Creation Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

**Report Database:** The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.